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(202) 226-7270



U.S. House of Representatives
COMMITTEE ON THE BUDGET
Washington, DC 20515

June 25, 2004

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AND CHIEF COUNSEL
(202) 226-7200

Independence Day Recess Package

Dear Democratic Colleague:

Attached is a package of budget materials; I hope it will be helpful to you during the Independence Day Work Period.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member

It's a Republican 4th of JULY

Debt Explodes!

- Debt limit raised to \$8.1 trillion



Deficits Skyröcket!

- Largest deficits in history. \$8.5 trillion reversal, from \$5.6 trillion surplus to \$2.9 trillion deficit

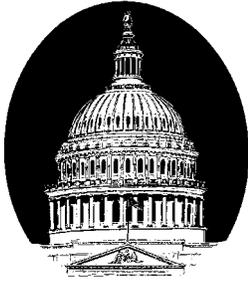
- Omitted costs will make deficit bigger

- Midsession Review will claim improvement, but outlook still bleak

But the Budget Is a **DUD**



For the first time in history, Republicans fail to approve a budget resolution while one party controls both houses of Congress and the White House.



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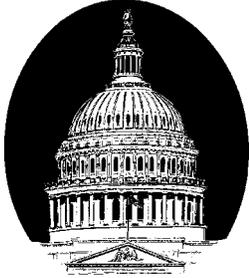
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INDEPENDENCE DAY

Recess Package

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June 25, 2004

Fiscal Year 2005 Budget Update

Deficits and Debt at Record High — As a result of oversized tax cuts and fiscal mismanagement by the Congressional Republicans and the Bush Administration, deficits are at record levels. The Administration inherited a \$5.6 trillion surplus in 2001, which has become a \$2.9 trillion deficit – an \$8.5 trillion swing. Instead of bringing forth plans to return the budget to balance, Republicans suggest more of the same misplaced priorities: large tax cuts for the most fortunate and steep spending cuts to vital programs.

Full War Costs Drive Deficits Even Higher — Costs for ongoing military operations in Iraq and Afghanistan continue to increase, but the Administration is unwilling to acknowledge the full cost of these efforts. As spending for the war rises, the deficit outlook deteriorates even further than Republicans admit.

Mid-Session Review Will Understate Severity of Problem — In mid-July, the White House will release a *Mid-Session Review* of the federal budget. The *Mid-Session Review* is likely to contain more favorable deficit numbers than the overly pessimistic projections released in February, yet the deficits for 2004 and 2005 will remain at historic highs.

Misplaced Priorities Lead to Sharp Cuts — Republican budgets make room for tax cuts and continue to waste taxpayer dollars through higher interest payments on the federal debt. However, Republican budgets fail to adequately fund important domestic programs and homeland security needs. Poor budgeting has already resulted in funding shortfalls for both the Interior and Homeland Security appropriations bills, and poor budgeting will lead to even sharper cuts for 2006.

Economy Slow to Rebound — Middle-class Americans and the economy still struggle after four rounds of tax cuts and three years of Republican control in Washington. The Bush Administration has failed to generate a meaningful recovery for an economy that slumped on its watch, and nearly two million private sector jobs have been lost since President Bush took office.

Budget Process Broken — For the first time in history, Republicans cannot approve a budget resolution when in control of both houses of Congress and the White House. Congressional Republicans abandoned a long-term budget outlook when it became clear their policies were failing: a ten-year window shrank to five, and recently to only one. Republicans considered a misguided budget enforcement measure on the House floor – even though they have no budget to enforce.

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GINNY BROWN-WAITE, FLORIDA

RICH MEADE, CHIEF OF STAFF
(202) 226-7270



U.S. House of Representatives
COMMITTEE ON THE BUDGET
Washington, DC 20515

June 22, 2004

JOHN M. SPRATT, JR., SOUTH CAROLINA
RANKING MEMBER
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RON KIND, WISCONSIN

THOMAS S. KAHN, MINORITY STAFF DIRECTOR
AND CHIEF COUNSEL
(202) 226-7200

The FY 2005 Defense Appropriations Bill Provides \$25 Billion for Operations in Iraq and Afghanistan, an Amount Insufficient to Finance the Full Year's Cost of These Operations

Dear Democratic Colleague:

The House version of the FY 2005 Defense Appropriations Bill, which goes to the floor on Tuesday, June 22, 2004, provides only \$25 billion for operations in Iraq and Afghanistan. This amount is only about one third of what the Department of Defense (DoD) will need for the entire year and is intended to serve only as a reserve fund to carry DoD through the first few months of the fiscal year. DoD will have to submit an emergency supplemental appropriation request early in calendar year 2005 to fully fund its war requirements. Based on analysis performed by the House Budget Committee Democratic staff in May 2004, DoD will need \$40 billion to \$55 billion in addition to the \$25 billion next year (for a total of \$65 billion to \$80 billion). Further, the bill includes a provision that makes the \$25 billion available upon its enactment so that DoD can use the funds to finance shortfalls in 2004. Any of these funds that are used in this fiscal year would result in an even larger emergency supplemental funding request next year.

The Administration has been slow to admit increases in costs and the need to request a prudent level of funding to fully support the military in these operations. The President's \$25 billion reserve fund request, which came three months after his official 2005 budget request, was a step in the right direction and quieted many who were concerned. However, it didn't go far enough. It could still result in the Department having to "cash flow" (DoD jargon for borrowing from 3rd and 4th quarter funds) or defer programs to bridge funding gaps until the Congress appropriates new funds, especially if a portion of the \$25 billion reserve fund is used to finance 2004 shortfalls.

A more immediate concern is the shortage of funds in this fiscal year. After being briefed by DoD officials two weeks ago, House Appropriations Committee Chairman Bill Young said that DoD may need \$10 billion more in 2004. This is \$6 billion on top of the \$4 billion shortfall to which General Myers testified before the House Armed Services Committee in April. Yet, the Administration still maintains that DoD does not need additional funds this year and that it can live within its means to carry itself through until the beginning of next year. DoD's funding plan for the rest of the year is not yet known. However, it is becoming more and more apparent that they will have to employ

creative financing methods to get by if funds from the reserve fund are not used. This likely will include the deferment of maintenance, training, or other important programs. Not only will such actions be to the detriment of our military readiness, but they also will add pressure to the budget in 2005.

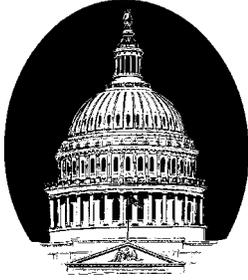
The release of DoD's latest Global War on Terrorism Cost Report, which includes data through March, reflects increased costs. Total obligations for the month of March for Operations Iraqi Freedom, Enduring Freedom (Afghanistan), and Noble Eagle (enhanced security) are \$6.8 billion (\$5 billion of this amount is attributable to Iraq operations), up from \$4 billion in the month of February. The average monthly obligation rate for these operations over the first half of the fiscal year (October through March) is about \$6 billion (and is within the range of the \$5.1 billion and \$6.1 billion per month that the House Budget Committee Democratic staff projected for 2005.)

I am attaching another copy of the House Budget Committee Report on projected 2005 costs for Iraq, Afghanistan, and enhanced security operations. Please do not hesitate to contact me or the House Budget Committee Democratic staff if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "John Spratt". The signature is written in a cursive, flowing style.

John M. Spratt, Jr.
Ranking Democratic Member



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

May 11, 2004

House Budget Committee Democratic Staff Analysis: Administration's \$25 Billion Request for Iraq and Afghanistan Operations will Cover Only a Fraction of Fiscal Year 2005 Costs

The Administration's request of \$25 billion for fiscal year 2005 to finance military operations in Iraq and Afghanistan is below what is required by \$40 to \$55 billion. The size of this request will require the Administration to submit another supplemental request before March of next year. Furthermore, the request does nothing to address the shortfall expected by the end of this fiscal year.

Just a few weeks ago, General Richard Myers, Chairman of the Joint Chiefs of Staff, told the House Armed Services Committee that the Defense Department could face a shortfall totaling \$4 billion by the end of September.¹ But the Administration's request is not expected to include additional funds for this fiscal year, and the Department of Defense currently has limited flexibility within its budget to transfer amounts of this scale into the accounts that will need to be replenished. As a result, it is unclear how the Defense Department is going to make up the expected shortfall without reducing funds for programs that directly affect current operations or the readiness of our non-deployed forces.

Analysis of 2005 Shortfall

For fiscal year 2005, the cost of these operations will range from \$65 billion to \$80 billion. According to these calculations, the \$25 billion request will be \$40 billion to \$55 billion less than what is needed.

The fiscal year 2005 cost calculations are primarily based on Defense Department cost reports for the three operations the Administration categorizes as the Global War on Terrorism (GWOT) — Operation Iraqi Freedom (OIF), Operation Enduring Freedom (OEF – Afghanistan), and Operation Noble Eagle (ONE – enhanced security at home).² The calculations use the data currently available, which run through February 2004. The data indicate that — excluding

¹ House Armed Service Committee Hearing on Iraq's Transition to Sovereignty, April 21, 2004.

² See "Consolidated Department of Defense (DoD) Terrorist Response Cost Reports," compiled by the Defense Finance and Accounting Service.

classified and intelligence programs — the Defense Department would spend from \$5.1 billion to \$6.1 billion per month (\$61 billion to \$73 billion for the year) if operations continued at the reported level. These estimates may understate the likely costs because the available data do not reflect recent increases in the level of military operations or recent reports that the Defense Department will begin rotating more heavy equipment to the theater of operations.

The total estimates for fiscal year 2005 also include costs associated with classified and intelligence programs (about \$5 billion per year based on past, publicly available data) and unbudgeted costs of the startup of the U.S. embassy in Baghdad (between \$500 million and \$1 billion).³

The table below provides low and high estimates for the cost of operations on a monthly and annual basis.

Projected FY 2005 Costs in Billions of Dollars

	Low Est. Monthly Obligation <u>Rate</u>	Low Est. Annual Proj. <u>Cost</u>	High Est. Monthly Obligation <u>Rate</u>	High Est. Annual Proj. <u>Cost</u>
OIF	4.0	48.0	4.7	56.4
OEF	0.7	8.4	0.9	10.8
ONE	0.4	4.8	0.5	6.0
Classified & Intelligence	n/a	5.0	n/a	5.0
Embassy	n/a	<u>0.5</u>	n/a	<u>1.0</u>
Total		66.7		79.2

Summary of Cumulative Cost of Iraq Operations and Reconstruction

When the two previous supplemental appropriations are added to this one, the total cost of the war in Iraq is approaching \$150 billion.

The following summarizes the previous two supplemental appropriations plus the current request:

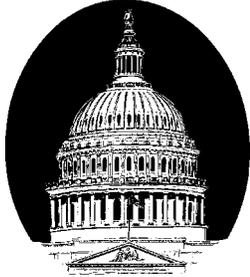
- Current request – \$25 billion

³ Cost range for Embassy start-up and operations are based on statements made by Marc I. Grossman, Under Secretary of State for Political Affairs, during House Armed Service Committee Hearing on April 21, 2004.

- FY 2004 Supplemental Appropriation – \$71 billion for Iraq operations and reconstruction, out of a total supplemental of \$87 billion:
 - ▶ \$51.5 billion for Iraq military operations,
 - ▶ \$19.5 billion for Iraq reconstruction and other efforts,
 - ▶ \$16 billion for Afghanistan and other GWOT efforts

- FY 2003 Supplemental Appropriation – \$56.4 billion for Iraq operations and reconstruction, out of a total supplemental of \$75.5 billion:
 - ▶ \$49.8 for Iraq military operations;⁴
 - ▶ \$6.6 billion for Iraq reconstruction and other efforts;
 - ▶ \$19.1 billion for Afghanistan and other GWOT efforts

⁴ Amounts for the FY 2003 Supplemental Appropriation take into account the \$3.5 billion rescission resulting from the FY 2004 Omnibus Appropriations Act.



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June 25, 2004

Mid-Session Review: Improving Low Expectations Is Not Progress

Sometime around July 15 — shortly after the Congress returns from the holiday recess — the Office of Management and Budget will release its annual *Mid-Session Review* of the budget.

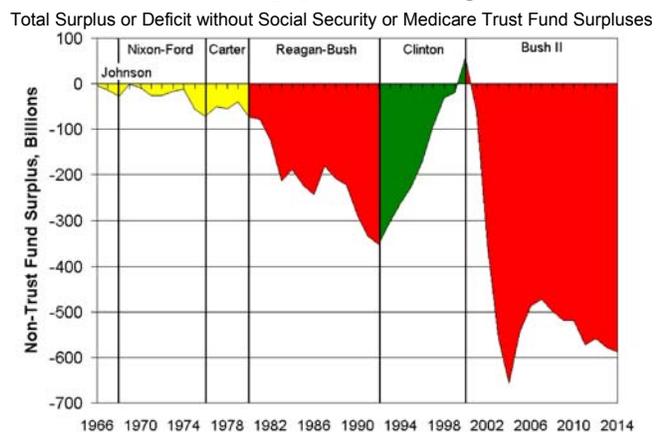
In the budget in February, the Administration projected a deficit for this year that was almost \$50 billion higher than CBO's estimate (\$521 billion, versus CBO's \$477 billion). In fact, this projection was so high that many outside analysts did not take it seriously. Now, with the fiscal year almost over, the Administration will claim victory, because the deficit clearly will be lower than their earlier, pessimistic estimate. They may even claim that the deficit "is down." In reality, however, the deficit for fiscal year 2004 will be the largest in our nation's history.

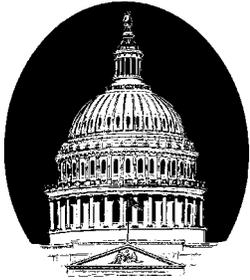
In the last fiscal year of President George H.W. Bush's term, he accumulated the then-record deficit of \$290 billion. President George W. Bush worsened the budget in every year of his term of office, and by fiscal year 2003 broke his father's record with a deficit of \$375 billion.

This year, President Bush is likely to lower the bar yet again, with a deficit of between \$425 billion and \$450 billion. But instead of recognizing responsibility for increasing the deficit from 2003's actual \$375 billion, the Administration may claim credit for "reducing" the deficit from its own 2004 projection of \$521 billion.

A rising, new record deficit is not an improvement. The deficit is going up, not down. The Administration and the Republican Congress must accept responsibility for imposing a burden of trillions of dollars of debt on generations of Americans to come.

A Fiscal Opportunity Lost





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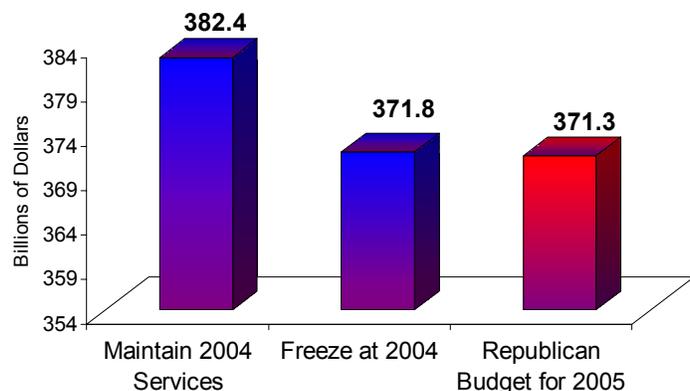
2005 Appropriations: Republican Priority on Tax Cuts Will Harm Domestic Services

The Republican budget resolution has already begun to inflict harmful consequences on domestic services for the upcoming fiscal year. In both the 2005 Homeland Security and Interior funding bills, appropriators were forced to shortchange vital programs because of the low funding levels that Republicans set in their budget resolution conference agreement. In that agreement, Republicans instead chose to make room for \$55.2 billion of additional tax cuts.

As a result of their choice, Republicans are cutting 2005 domestic funding — all funding except for defense and international programs — by a total of \$11.1 billion below the amount needed to maintain services at their 2004 levels, even after counting a gimmick to raise funding by \$7.2 billion. ***This translates into a domestic cut of \$487 million below a freeze at the 2004 enacted level.***

Flaws in the Republican budget resolution will affect Congress's appropriations process in other ways, too. Republicans could not balance their desire for additional tax cuts with the need to protect domestic priorities, so they passed in the House a conference agreement that had true funding levels for only 2005 and place-holder numbers for the remaining four years. And because Republicans failed to include a provision imposing control over spending and tax cuts in future years, a majority of the Senate will not vote for the budget conference agreement. This failure to pass a budget for 2005 has two important effects: (1) the House and Senate are acting under ad hoc funding levels that are too low to ensure passage of all 13 appropriations bills; and (2) there is no plan for the years after 2005.

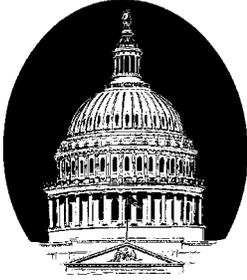
Republican Budget Cuts Domestic Purchasing Power for 2005



Insufficient Funding for Homeland Security and Environmental Protection

For 2005, Congress must cut funding for domestic services by \$487 million below a freeze at the 2004 enacted level. Because Congress will increase funding for some domestic programs for 2005, it will have to cut others by even more. With these first bills on the House floor, the Appropriations Committee has begun to spread that cut to important services in the Homeland Security and Interior appropriations bills, such as the following:

- ***Cuts First Responder Programs*** — The Homeland Security appropriations bill cuts funding for first responder programs at the Department of Homeland Security from \$4.4 billion to \$4.2 billion, a cut of \$277 million below the 2004 enacted level. The bill's increase (\$279 million) for grants for high-threat urban areas is offset by a larger cut (\$440 million) to formula-based grants. The bill cuts funding for firefighter assistance grants by \$96 million (12.9 percent) from the 2004 enacted level of \$746 million. A 2003 Council on Foreign Relations study estimated \$98 billion in unmet needs for first responders.
- ***Fails to Adequately Fund Port Security*** — The Homeland Security bill essentially freezes funding for port security grants at the 2004 level of \$124 million. The full Committee defeated a Democratic amendment that would have made additional funding available for port security grants. Port security grants from the Department of Homeland Security provide funds for port agencies to install the fencing, surveillance technologies, and other measures needed to prevent terrorists from gaining access to docks and other port facilities. The Coast Guard reports needs in this area totaling \$5.4 billion over ten years.
- ***Slashes Promised Conservation Funding*** — The 2005 Interior appropriations bill cuts funding for the most pressing conservation, recreation, and wildlife needs by nearly 22 percent below the 2004 enacted level. Congress committed to fund the Interior portion of the Conservation Trust Fund at \$1.7 billion for 2005, yet the Interior appropriations bill provides only \$832 million — less than half the promised amount and a steep cut from the 2004 enacted level.
- ***Cuts Nearly \$700 Million of President's Major Requested Increases for Interior Bill*** — Because the budget resolution restricts domestic funding, Republicans shifted nearly \$700 million from programs the President supported to other priorities in the Interior appropriations bill. For example, the bill eliminates \$219 million from the President's request for the FutureGen clean coal power plant initiative, \$170 million from land acquisition, \$57 million from the Forest Legacy program, and \$53 million from the abandoned mine reclamation fund.



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June 1, 2004

Administration Confirms Its Plan to Cut Many Services Deeply in 2006

A White House memorandum dated May 19, 2004, confirms that the Administration’s 2006 budget would impose deep cuts in many key government services. This memorandum contradicts earlier Administration denials of 2006 budget cuts buried deep within the unpublished budget numbers issued in February — cuts detailed in a February 19th House Budget Committee Democratic staff report. The May 19 Administration memorandum clearly directs agencies to “[a]ssume accounts are funded at the 2006 level specified in the 2005 Budget database” that shows the spending levels in the President’s budget for agencies and programs for 2005 through 2009.

Hidden Long-Term Cuts in President’s 2005 Budget — In its 2005 budget released in February, the Administration tried to cloak its cuts in 2006 through 2009. For the first time, the Administration excluded from its published budget materials the discretionary funding totals for programs and accounts beyond 2005. Only the Office of Management and Budget (OMB) computer tables show the budget’s proposed funding — and cuts — for 2006 through 2009.

Agencies Cut in 2006, According to President's 2005 Budget (billions of dollars of budget authority, OMB estimates)

	2005	2006	\$ cut	% cut
Education	57.339	55.864	-1.475	-2.6%
Veterans Affairs	29.654	28.744	-0.910	-3.1%
EPA	7.759	7.609	-0.150	-1.9%
State	10.259	10.003	-0.256	-2.5%
Interior	10.849	10.605	-0.244	-2.2%
Social Security Administration	7.585	7.391	-0.194	-2.6%
National Science Foundation	5.745	5.628	-0.117	-2.0%
Small Business Administration	0.678	0.662	-0.016	-2.4%
Commerce	5.716	5.643	-0.073	-1.3%
Labor	11.880	11.676	-0.204	-1.7%
Health and Human Services	68.157	68.055	-0.102	-0.1%

White House Memo Contradicts Earlier Denials of Planned Cuts — In February, the Administration tried to repudiate the cuts in 2006 through 2009. OMB officials and at least one Cabinet Secretary said that the long-term estimates are calculated by formula and do not reflect policy decisions. However, the Administration’s May 19 memo directs the agencies to abide by those totals for each budget account. Agencies may request higher figures for one or more of their accounts, but if so, they must offset those increases with decreases in their other accounts. In other words, if there is to be greater funding than in the Administration’s 2005 budget for one education program, that increase must be offset by a cut in another education program.

Following are some examples of the planned cuts, for agencies and their programs, in the President’s budget. These cuts come directly from the OMB database that shows the spending levels for 2005 through 2009.

Cuts Department of Education Beginning in 2006

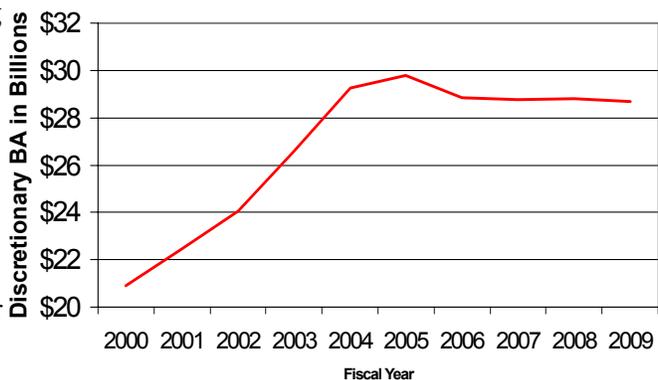
While the budget increases funding for the Department of Education by \$1.7 billion from 2004 to 2005, it cuts the funding by \$1.5 billion for 2006 and essentially freezes it at that low level for the following three years. Cuts for 2006 through 2009 will mean fewer children are challenged to learn and equipped to succeed, helped to meet the goals of the President’s No Child Left Behind Act, or given assistance to afford and attend college.

- **Shrinks Maximum Pell Grant Award** — In the President’s February budget, funding for Pell Grants would fall by \$327 million for 2006, cutting the maximum award by at least \$75 to a level below the 2002 maximum award, assuming that the cut to higher education is spread proportionally across programs.

Cuts Veterans Health Care

For 2006, the President’s budget cuts funding for the Department of Veterans Affairs (VA) by \$910 million (3.1 percent) below the 2005 requested level. And even that 2005 level was \$1.2 billion less than what the Secretary of VA had originally requested. The Secretary also testified this spring that the funding levels for 2006 through 2009 in the President’s budget may not be realistic. Over five years, the President’s budget for appropriated veterans programs is \$1.4 billion below a freeze at the 2004 enacted level. Almost all appropriated funding for veterans pays for medical care and hospital services. Future increases in health care prices and caseload will push VA medical funding needs well above a freeze at the 2004 level.

President’s Budget Cuts Veterans’ Appropriations Below 2004 Level



Cuts to Environmental Protection for 2005 and 2006

For 2005, the President's budget provides less than \$7.8 billion in appropriations for the Environmental Protection Agency, a cut of nearly \$600 million (7.0 percent) below the 2004 enacted level. For 2006, the Administration cuts EPA funding by an additional \$150 million, providing only \$7.6 billion. The Department of Interior will receive only \$10.6 billion in 2006, a cut of \$244 million (2.2 percent) below the proposed 2005 level. For 2005, the President's budget provides less than \$4.0 billion for the Army Corps of Engineers, \$597 million (13.1 percent) below the 2004 enacted level. For 2006, the Corps is cut by an additional \$13 million.

Cuts National Science Foundation (NSF) in 2006 and Beyond

While the President's budget increases funding for NSF by \$167 million for 2005, it then cuts it by \$117 million in 2006. In the five years of the President's budget, NSF never again reaches the 2005 level of funding.

Cuts Department of Commerce in 2006

Despite a net loss of 2.2 million private-sector jobs since the Bush Administration took office, the President's budget cuts appropriations for the Department of Commerce by 1.3 percent from 2005 to 2006.

- ***Shrinking Support for International Trade Administration (ITA)*** — The ITA assists in the creation of U.S. jobs by aiding the growth of export businesses, enforcing U.S. trade laws and agreements, and improving access to overseas markets by pressing for the removal of trade barriers. The budget highlights its \$12 million increase for ITA, for a 2005 total of \$394 million, but then follows this with a \$10 million reduction for 2006 and virtually no growth thereafter.

Cuts Department of Labor Beginning in 2006

For 2006, the President's budget cuts appropriations for the Department of Labor to a level that is below even the 2004 enacted level of \$11.7 billion. To reach that agency level, the President's budget cuts job training. For 2005, the budget essentially freezes funding for training and employment programs at \$5.9 billion, although within that total, the budget cuts existing adult training and dislocated worker programs by \$151 million. For the next four years, the budget cuts total funding below the 2005 amount, with the steepest cut in 2006. This cut in job training comes even though the economy has lost millions of jobs since President Bush took office and an increasing number of jobs are being sent overseas.

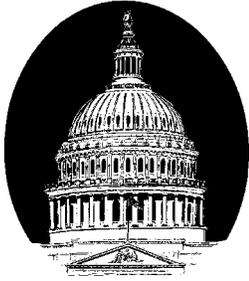
Cuts Health and Human Services in 2006

The President's budget cuts funding for the Department of Health and Human Services by \$102 million for 2006. To achieve that cut, the budget cuts appropriations both for programs that help children and for agencies that support health research.

- ***Eliminates Child Care for Nearly Half a Million Children*** — For 2006, the President's budget cuts funding for the Child Care and Development Block Grant by \$53 million below the 2005 level, and for the next three years it cuts funding below the 2004 level. Federal resources for child care also include the Child Care Entitlement to States (which the budget freezes at \$2.7 million through 2009), as well as TANF and Social Services Block Grant funds spent on child care at state discretion. Considering all funding available for child care, the budget projects that the number of children receiving assistance will decline from 2.5 million in 2003 to 2.2 million in 2009. Independent experts estimate that the loss under the President's budget will be even worse, eliminating child care for 447,000 children. Meanwhile, the President's plan to increase work requirements for welfare recipients will increase the demand for affordable child care.
- ***Cuts Funding for Head Start After 2005*** — The President provides sufficient funding to freeze Head Start enrollment for 2005, but then reduces funding in the following years, cutting \$177 million (2.5 percent) for 2006, assuming that the cut to children and family programs is applied across the board. Head Start currently serves less than 60 percent of eligible four-year-olds, but these cuts would mean even fewer children would be able to attend Head Start.
- ***National Institutes of Health (NIH) Increase in 2005 is Reversed in 2006*** — After providing average annual growth of nearly 15 percent from 1998 to 2003 — doubling NIH's budget — the 2005 budget holds NIH funding to its lowest increase in years. The budget provides \$28.6 billion for NIH, an increase of \$711 million (2.6 percent) over the 2004 enacted level. The budget then cuts NIH by 2.1 percent for 2006, and provides minuscule increases for subsequent years. At no time over the five-year period does NIH funding again reach the 2005 level.
- ***Health Resources and Services Administration (HRSA) Cut Two Years in a Row*** — The mission of HRSA is to “improve and expand access to quality health care for all,” and its programs include community health centers, rural health programs, access to health care for people living with HIV/AIDS, and training and recruitment of health care professionals, to name a few. In 2005, the budget provides \$6 billion, a cut of \$638 million below the 2004 enacted level. The budget then cuts HRSA even further for 2006, this time providing \$785 million less than the 2004 level.

Conclusion

The May 19 White House memorandum confirms that the Administration does plan to cut key government services next year, including some it brags about increasing this year. The Administration is requiring these cuts because it chose to promote oversized tax cuts, and now cannot afford to fund vital government services.



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

June 25, 2004

The Administration's Programmed Budget Cuts in 2006 Will Mean Reduced Health Care Services for Veterans

The Office of Management and Budget memorandum of May 19, 2004, confirmed that, despite previous denials, the Administration plans to make deep cuts in many key government services after 2005. Veterans' health care is one program that will be hit particularly hard. The Administration's plan will cut \$910 million from the Department of Veterans Affairs (VA) discretionary budget in 2006, which currently provides funds allowing about 7 million veterans to enroll in the VA health care program. The cut will mean that the VA will be unable to provide the current level of health care services to all of its enrolled veterans – those who have served and sacrificed for our country. This is all the more troubling because servicemen and servicewomen returning from the war in Iraq and the global war on terrorism will be depending on these services.

Analysis of 2006 Underfunding

After taking into account a modest level of inflation (2.3 percent – the Congressional Budget Office [CBO] inflation projection, which is far less than the 7 to 8 percent at which the cost of medical care is currently growing¹), the Administration's planned 2006 budget is \$1.6 billion short of what is needed to provide services at its 2005 requested level. Using the higher medical care inflation rates, the VA would be \$3 billion short of maintaining services at the President's requested level for 2005.

While it remains to be seen how the 2006 cut would be implemented, it is clear that a cut of this magnitude would have a substantial negative impact on veterans' health care. For example, underfunding veterans' health care in 2006 by \$1.6 billion could mean any of the following:

- Disenrolling about 240,000 veterans from medical care services.² The VA also may not

¹ Estimate of the current rate of medical care inflation is based on pricing data the Bureau of Labor Statistics collected on the Consumer Price Index subcategory, Hospital and Related Services, through May 2004.

² Estimate based on average 2005 obligations per unique veteran projected by the VA. VA FY 2005 budget submission, volume 2, p. 2C-2.

be able to accommodate the thousands of veterans who will eventually return from the wars in Iraq and Afghanistan. To date, approximately 25,000 Iraq and Afghanistan war veterans have sought health care from the VA.³ The VA must prepare to care for thousands more seeking its services beyond 2005.

- Raising the cost of veterans' health care by imposing new enrollment fees or increasing co-payments for drugs and primary care for certain veterans. The Administration already has proposed similar increases in co-payments in its budget requests for 2003, 2004, and 2005, indicating its willingness to increase the financial burden on veterans.⁴
- Cutting up to 18,000 full-time employees for veterans' medical care. (\$1.6 billion equates to 70 percent of VA's physician payroll, or, alternatively, about 40 percent of VA's payroll for nurses.)⁵ Personnel reductions could result in fewer veterans getting treatment, a decrease in the quality of health care services, and an increase in waiting periods for veterans seeking care.
- Eliminating new construction projects (including any new projects under Capital Assets Realignment for Enhanced Services for which the VA plans to request about \$1 billion per year for the next 5 years⁶). Reductions for these projects would delay or halt the initiative to modernize the VA's aging health care infrastructure.
- Eliminating the entire medical and prosthetic research enterprise – which is becoming all the more important as our troops return from Iraq with extensive injuries requiring improved, state-of-the art medical devices that are developed as a result of this research. The President requested \$770 million for this important research in 2005, which is already \$50 million below the 2004 level.

The Administration's Request for 2005 is Already Low

Taking into account the fact that the Administration underfunded the veterans health care budget in 2005, the overall effect of the Administration's 2006 funding level will be even worse. The President's budget request for 2005 was \$1.2 billion short of what the Secretary of Veterans Affairs said is needed and \$2.5 billion short of the amount the Veterans' Affairs Committee recommended, on a bipartisan basis, to maintain current services.

³ Estimate from VHA Office of Public Health and Environmental Hazards, Analysis of VA Health Care Utilization, May 19, 2004, Reports 3 and 6.

⁴ As part of the 2005 budget request, the Administration proposed increasing co-payments for prescription drugs from \$7 to \$15 and imposing a new \$250 enrollment fee for priority 7 and 8 veterans.

⁵ Estimates based on VA estimates for 2005 medical care payroll obligations per Full Time Equivalent and obligations by object classification. VA FY 2005 budget submission, volume 2, pp. 2C-6, 2C-10.

⁶ CARES Decision, Statement of the Secretary, chapter 1, p. 5.

Summary of the Department of Veterans' Affairs Discretionary Budget

Department of Veterans Affairs - Discretionary Funding Level Comparison (Budget Authority in Billions of Dollars)

	<u>2004</u>	<u>2005</u>	<u>2006</u>
President's 2005 Budget	29.1	29.7	28.7
Amt. to maintain purchasing power at the President's 2005 level ⁷			30.3
<i>Shortfall</i>			<i>1.6</i>

⁷ An inflation rate of 2.3 percent, CBO's rate, is used to calculate how much is needed to maintain purchasing power in 2006 at the President's 2005 requested level.



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June 25, 2004

Failed Republican Economic Policy

The U.S. economy and working Americans are worse off because of the failed economic policies of the Bush Administration and the Republican Congress. The damage has been felt in the form of slow economic growth and slow business investment, lost jobs, and widespread uncertainty.

The U.S. economy remains strong because of the energy and ingenuity of the American people, free markets, prompt and effective administration of justice, and our widely accepted spirit of fair business practices. We can ensure our prosperity by reversing the misguided policies of the past four years and reinstating principles of federal fiscal responsibility.

The Coming of Fiscal Irresponsibility

President Bush became the first American President in modern times to inherit a booming economy and a budget in surplus. But as soon as President Bush took office, the fiscal-responsibility safety latch on the Treasury was gone.

President Bush and Congressional Republicans said that they would pay off the national debt, expand the military, extend the solvency of Social Security and Medicare, and then, with the budget surplus left over, provide a large tax cut, disproportionately targeted to those Americans who needed the help the least. Administration spokespersons repeated time after time that nothing possibly could go wrong.

Instead, in March of 2001, when the longest economic expansion in U.S. history ended, the Bush Administration's budget plans came unstuck. By the time of the budget reestimates in August, it was clear that the non-Social Security budget surplus that Republicans pledged to maintain was gone.

Since that time, even though the federal government has assumed additional responsibilities in the war on terrorism, Republicans have refused to reconsider their blue-sky economic plan of oversized tax cuts. Instead, they have added still further tax cuts, even in the face of the substantial additional federal responsibilities. The result has been the largest budget deficits in U.S. history, and projections of continuing large deficits in perpetuity if Bush Administration policies are enacted and continued.

The Bush Administration and Congressional Republicans failed the most fundamental test of stewardship, in that they took risky actions that left us unprepared for adverse developments. Democrats warned that the nation would have no viable fiscal response if the large projected budget surpluses failed to materialize, but Republicans chose a risky path and we are now paying the price.

The Effects of Fiscal Irresponsibility

Republicans have touted their tax cuts as good for economic growth. But in reality, the only thing that has grown the quickest because of the Republican tax cuts is the national debt. At the beginning of their Administration, the Bush team told the nation that we needed their proposed tax cuts to give the American people their money back. Once subsequent events demonstrated that the budget surplus was gone, Republicans claimed that the nation needed the tax cuts to shorten their recession. To that end, Republicans passed additional tax cuts in 2002 and 2003.

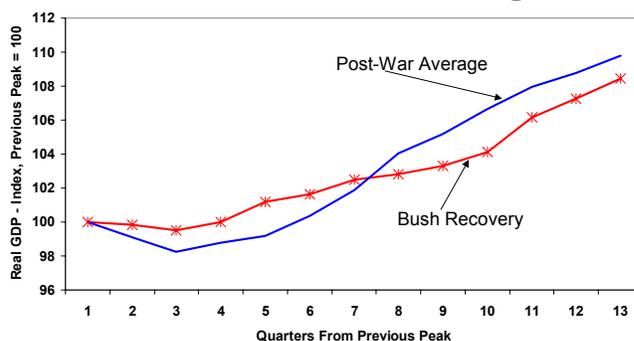
Democrats advocated quick tax cuts — like the immediate tax refunds enacted in 2001 and 2003 — aimed mostly at moderate-income working Americans. The 2001 tax refunds helped to shorten the recession itself, and the 2003 refunds helped to begin the real economic recovery. But Republicans went well beyond these quick and efficient tax cuts. They added large tax cuts for those Americans who needed the help the least, especially for their income from dividends and capital gains, plus the repeal of the estate tax that did not even touch the 98 out of 100 estates that did not have the very highest wealth.

The tax cuts helped to send the budget into record deficit, and the outlook is that the President's policies would keep the budget in large deficit forever. The debt would grow faster than the GDP, which would start an adverse cycle of rising debt, leading to rising debt service costs, leading to rising deficits, leading to rising debt. The President's own budget acknowledges that this is true (*Analytical Perspectives, Budget of the United States Government, Fiscal Year 2005*, page 191: "These long-run budget projections show clearly that the budget is on an unsustainable path..."). And because the budget's own policies are unsustainable, the federal government itself injects an element of uncertainty into the financial markets and the economy. That is not conducive to risk-taking and long-term commitments by the productive private sector.

So just as the fiscal responsibility of the 1990s bred growth and prosperity, so the fiscal irresponsibility of the Bush Administration and the Republican Congress has stifled recovery and growth.

Economic Growth. This is evident in the pace of economic growth in this recovery. The recession was shorter and shallower than the post-war average, thanks in large part to the quick Democratic tax refunds. However, in the longer term, growth has lagged behind

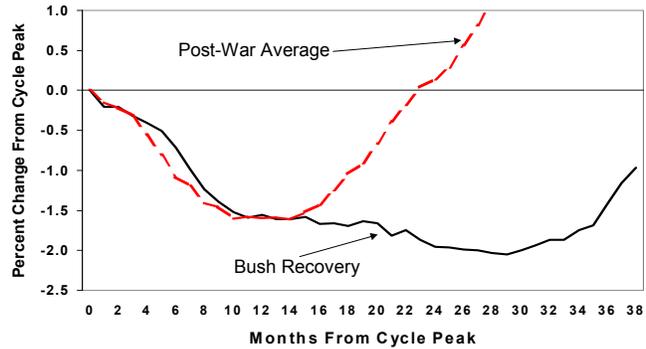
Despite Large Tax Cuts, Economic Growth Lags



previous economic recoveries. Even the revival in just the last few quarters, after the 2003 tax refunds, has left the economy still well behind previous recoveries.

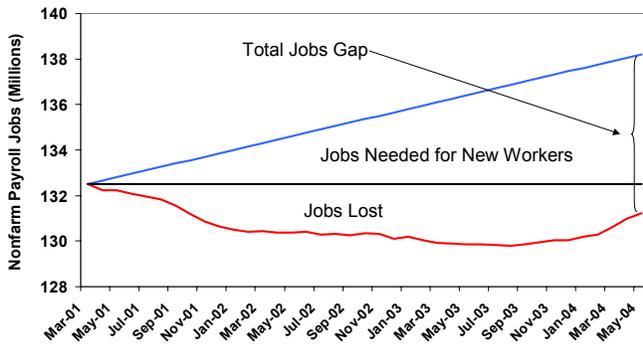
Some Republicans have even taken to calling today's economy "the best in decades." From the chart, this clearly is not the case. The American people do not mistake a few months' bounce for a sustained economic expansion.

Jobs Lag, Despite Big Tax Cuts



Jobs. Another indication of the people's perspective on the current economy is jobs. This truly was a "jobless recovery," even by the standards of the sluggish economy of 1991 and 1992.

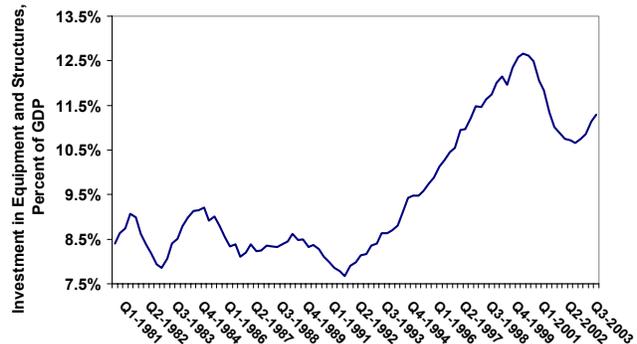
Seven Million Jobs Short of Democratic Track Record



Relative to the average of the economic cycles since World War II, the picture is truly bleak. The typical post-War recession turned the corner on jobs after little more than one year, and before two years it was back to the employment level of the previous economic peak. This economic cycle lost increasing numbers of jobs for about two and one half years, and is still well short of its previous maximum employment — 1.2 million total jobs, and 1.9 million private-sector jobs.

Every month, the U.S. adult population grows by about 150,000 persons. Just to keep pace with this growth, the economy needs to generate about 150,000 new jobs per month. Thus, it is not enough for the economic recovery merely to get back to the number of jobs that it had at the beginning of the recession; it must add a backlog of about 5.7 million jobs that has built up through May of 2004 to put all of the new job-market entrants to work. With 1.2 million total jobs lost since the beginning of the recession, and 5.7 million new potential workers to accommodate, that leaves the economy about 7.0 million jobs short of where it was at the beginning of this Administration.

Business Investment Has Not Regained the Level of the 1990s

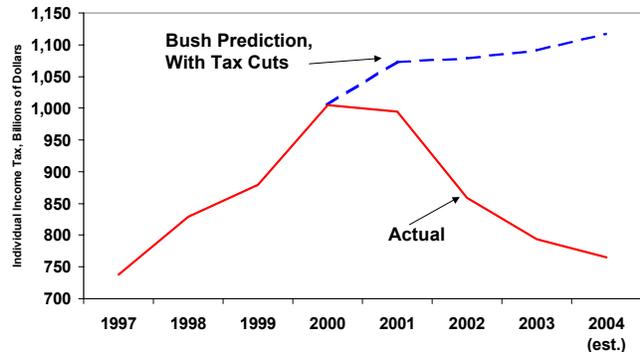


Investment. The reason why the current economic expansion is deficient is apparent in a closer look at the data. The root of growth in the economy and productivity is business investment. The investment performance of the 1980s was

mediocre at best, but in the 1990s the economy achieved the most solid and sustained investment growth in the nation's history. The Bush years have seen a precipitous drop in investment. Some Republicans see the brief and partial recent recovery as "the best economic performance in decades." But from the perspective of history, this minor bounce clearly falls far short of the years of fiscal responsibility.

Revenues. And the latest budget data show no end to the legacy of deficits and debt. Federal individual income tax receipts are down a staggering 24 percent since the Bush tax cuts. Some Republicans are making that claim once again that "tax cuts increase revenue" on the dubious basis that tax collections in the last few months are fractionally up from the few months before; but from any reasonable perspective, the drop in federal revenues under President Bush and the Republican Congress has been huge.

Revenues Collapse Under Republican Policies

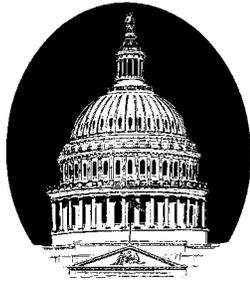


And this drop in revenues cannot be ascribed to a temporarily weak economy, and assumed to vanish at some near future date. The Congressional Budget Office has reported that the cyclical component of the budget deficit is already virtually gone. The remaining large deficit is structural — meaning that it is likely to continue indefinitely in the absence of fundamental changes.

This collapse of tax revenues bodes only ill for the budget, the economy, and the American people. The national debt is growing faster than our income (more technically, the GDP). More debt breeds more interest cost, which breeds bigger deficits, which yields more debt. With the retirement of the baby-boom generation beginning in just four years, the budget is totally vulnerable to the most significant demographic event of modern times. And large deficits make it more difficult to pass all Social Security refinancing plans, even those that rely on privatization (because those proposals entail multi-trillion dollar transition costs over three to four decades). With such deficits, the nation is poorly equipped to address other priorities or contingencies that may arise.

The Need for Responsible Leadership

The Bush strategy of deficits and debt diminishes the strongest economy in the world, and puts our prosperity at risk. The American worker, whose energy and ingenuity have made our economy the envy of the world, deserves better. With a return to a path of fiscal responsibility, our economy can regain the strength that it showed in the years of fiscal responsibility in the 1990s.



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June 25, 2004

Republicans Raise the Debt Limit — Again

For the third time in three years, Republicans need an emergency increase in the debt limit. Last year, they enacted the largest debt limit increase in history: \$984 billion. In 2002, they raised the debt limit by \$450 billion. Now, they need another \$690 billion increase to keep the federal government solvent for just one more year.

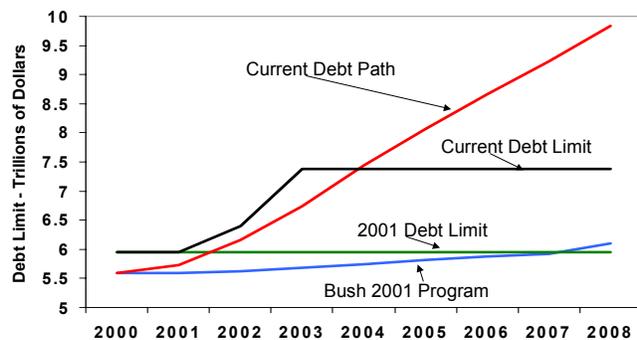
Republicans are unwilling to recognize the fiscal consequences of their actions. First, Republicans tried to use the “Hastert Rule” to produce an increase in the debt limit through their budget resolution without having to take a vote. But they could not agree among themselves on a budget resolution. Then House Republicans tried to cloak the urgently needed debt limit increase in an unrelated must-pass bill.

In the eight years of the Reagan Administration, the Congress increased the debt limit 18 times. In the four years of the George H.W. Bush Administration, the Congress increased the debt limit nine times. But in the last four years of the Clinton Administration, the nation never needed a higher debt limit. That was the payoff of Democratic fiscal responsibility.

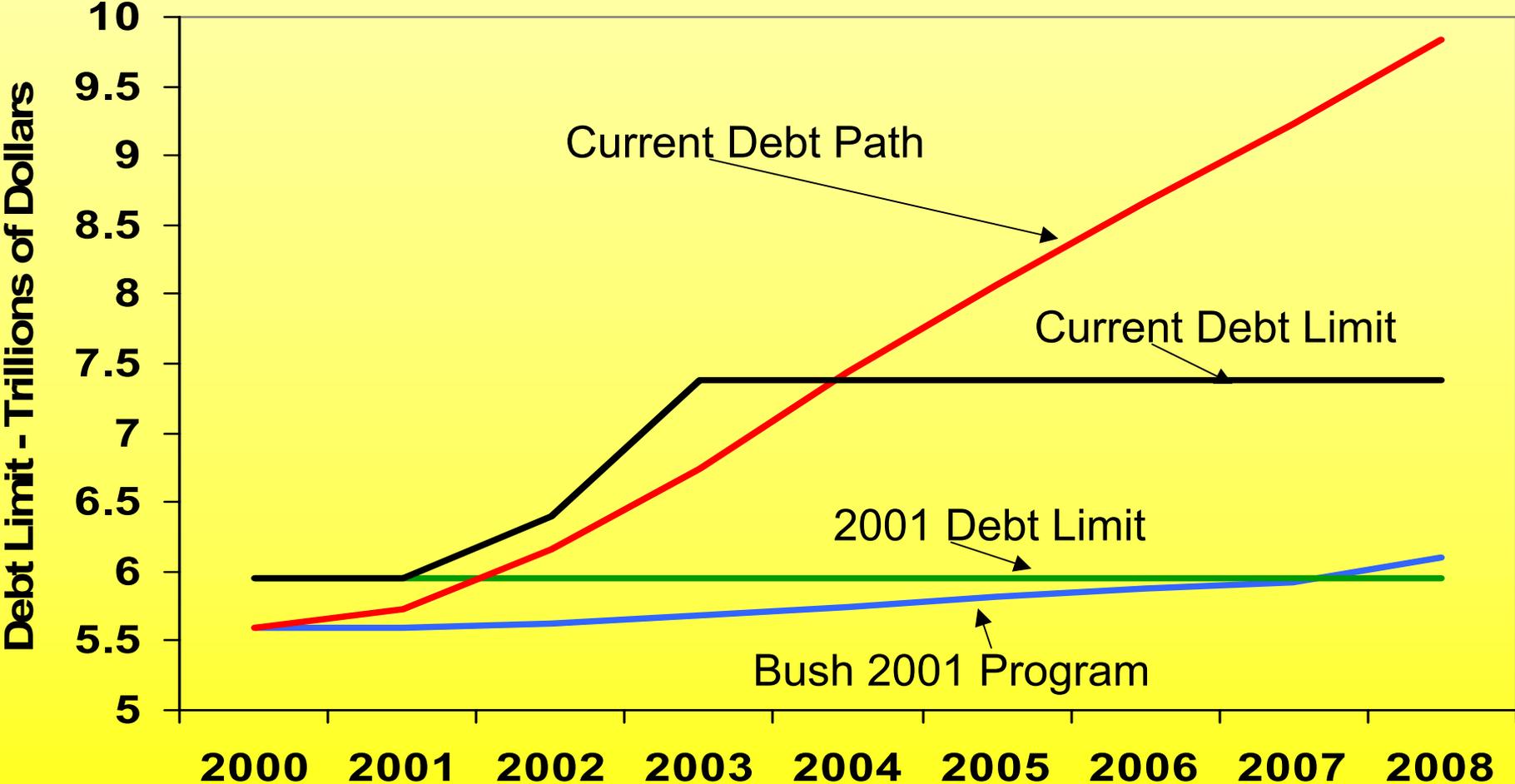
When President Bush and the Republican Congress increased the debt limit by \$984 billion in 2003, they achieved the largest debt limit increase in history. The \$690 billion debt limit increase that is implied in the budget resolution conference report will be the third largest in history. The \$450 billion that President Bush needed in 2002 was the sixth largest. So the debt limit increases needed by President Bush and the Republican Congress over the last three years constitute three of the seven largest hikes in history, totaling \$2.124 trillion. That is more than the total debt accumulated by the United States from Valley Forge through August of 1986.

It is one thing to raise the debt limit while working to put the nation’s fiscal house in order; Democrats stepped up to that responsibility in the early 1990s. But it is very much another to try to include increases in the federal government’s credit line while taking policy actions that make the fiscal problem even worse.

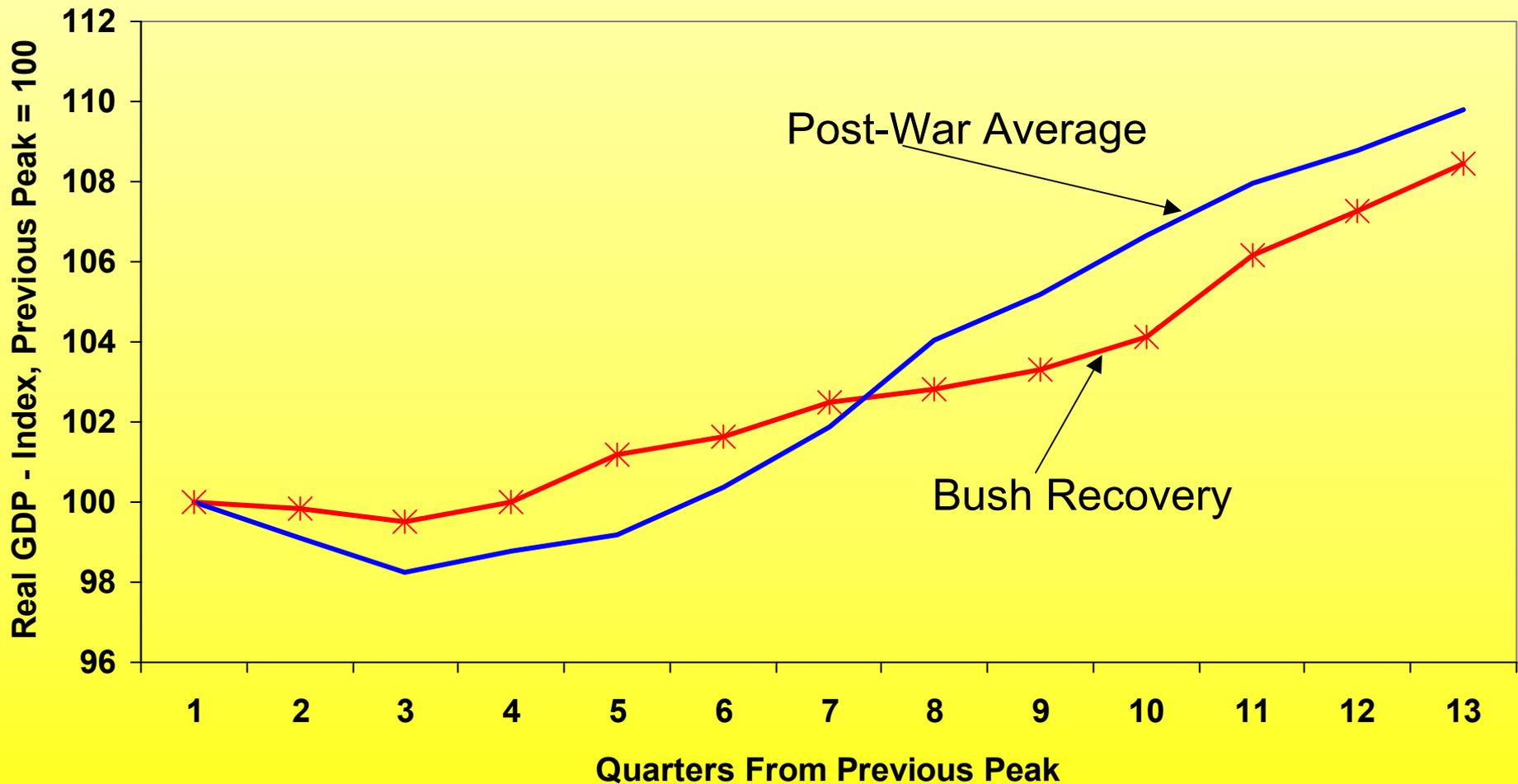
Bush Administration Said Debt Limit Would Last Until 2008



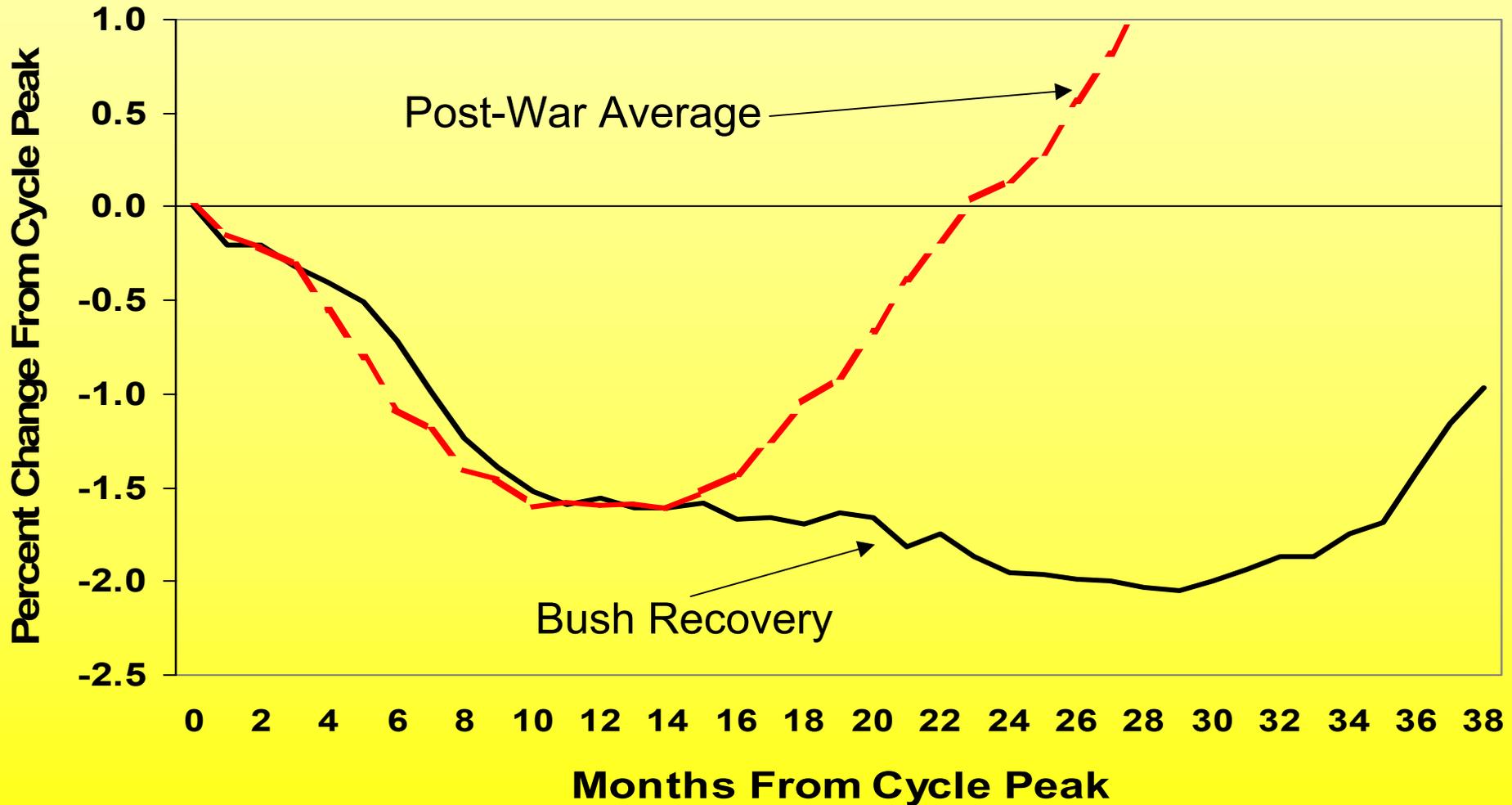
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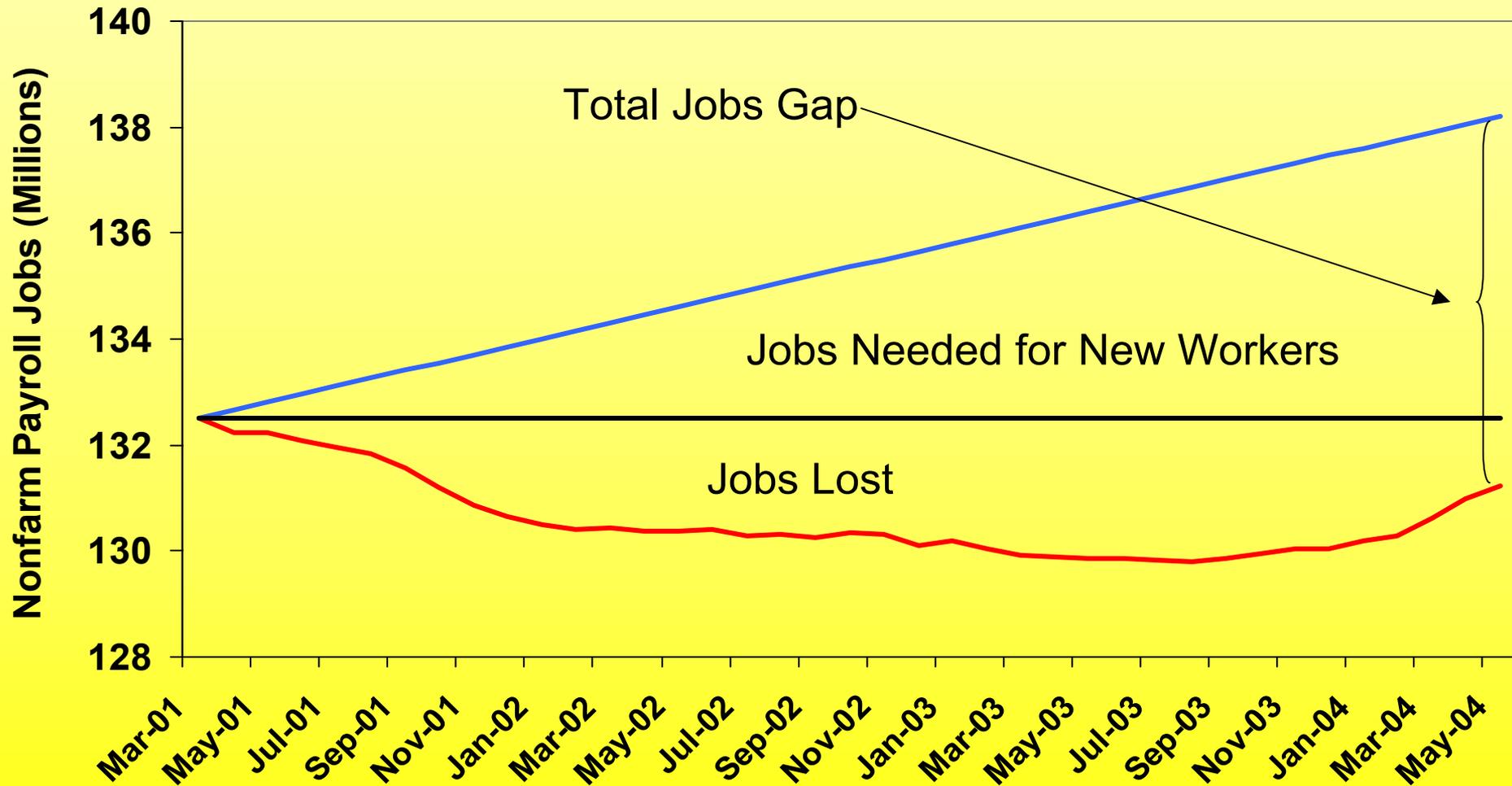
Despite Large Tax Cuts, Economic Growth Lags



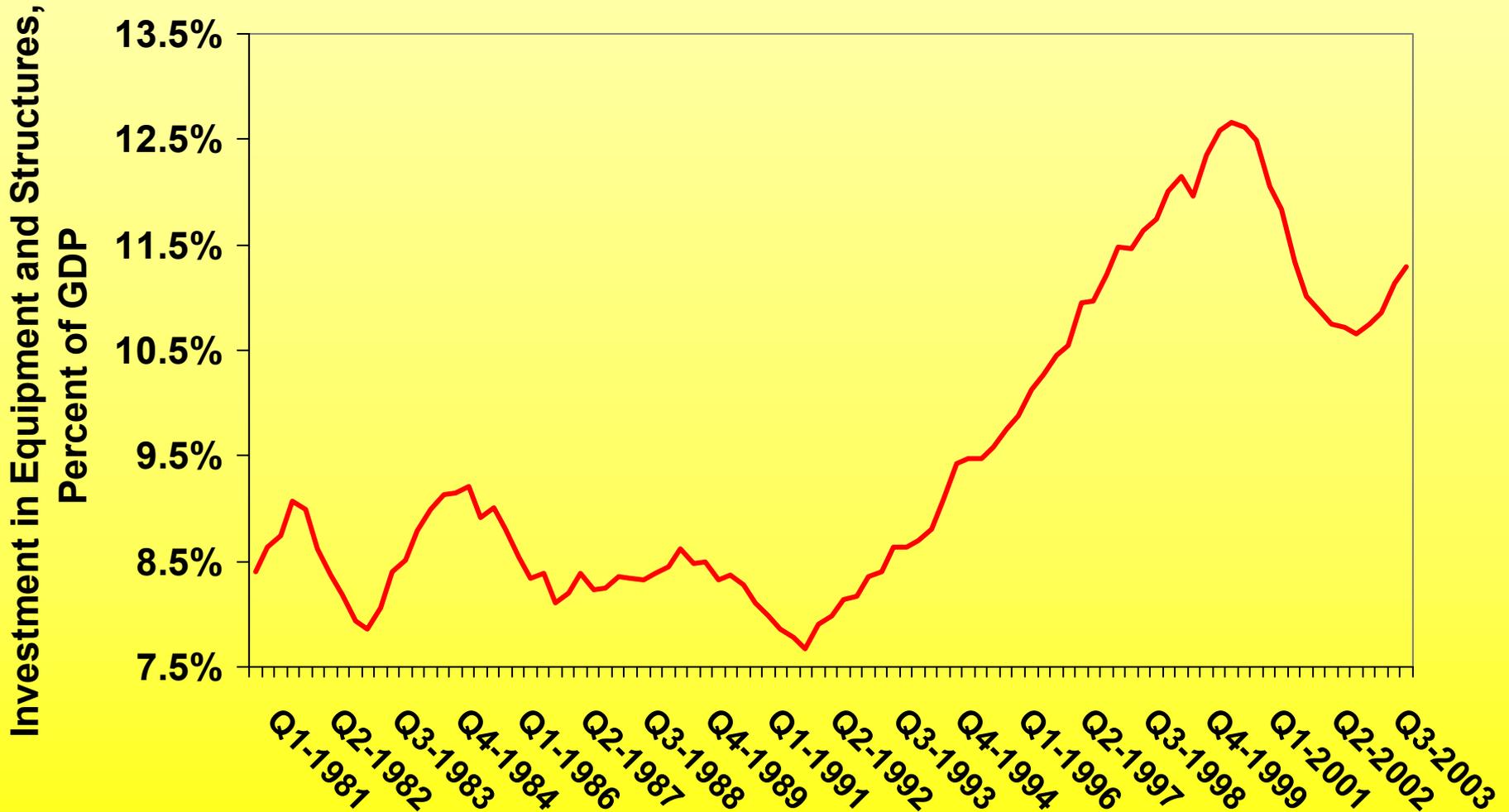
Jobs Lag, Despite Big Tax Cuts



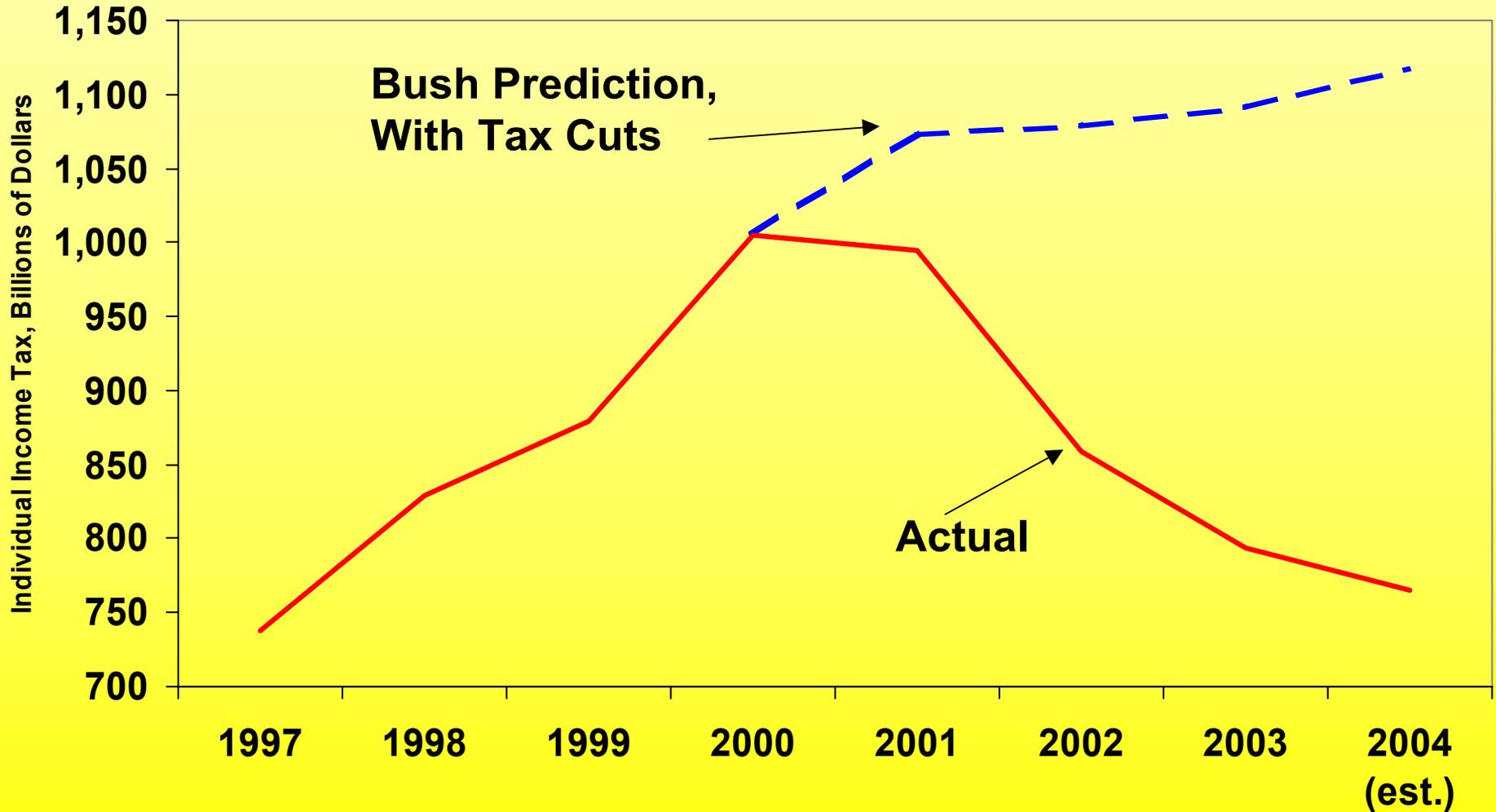
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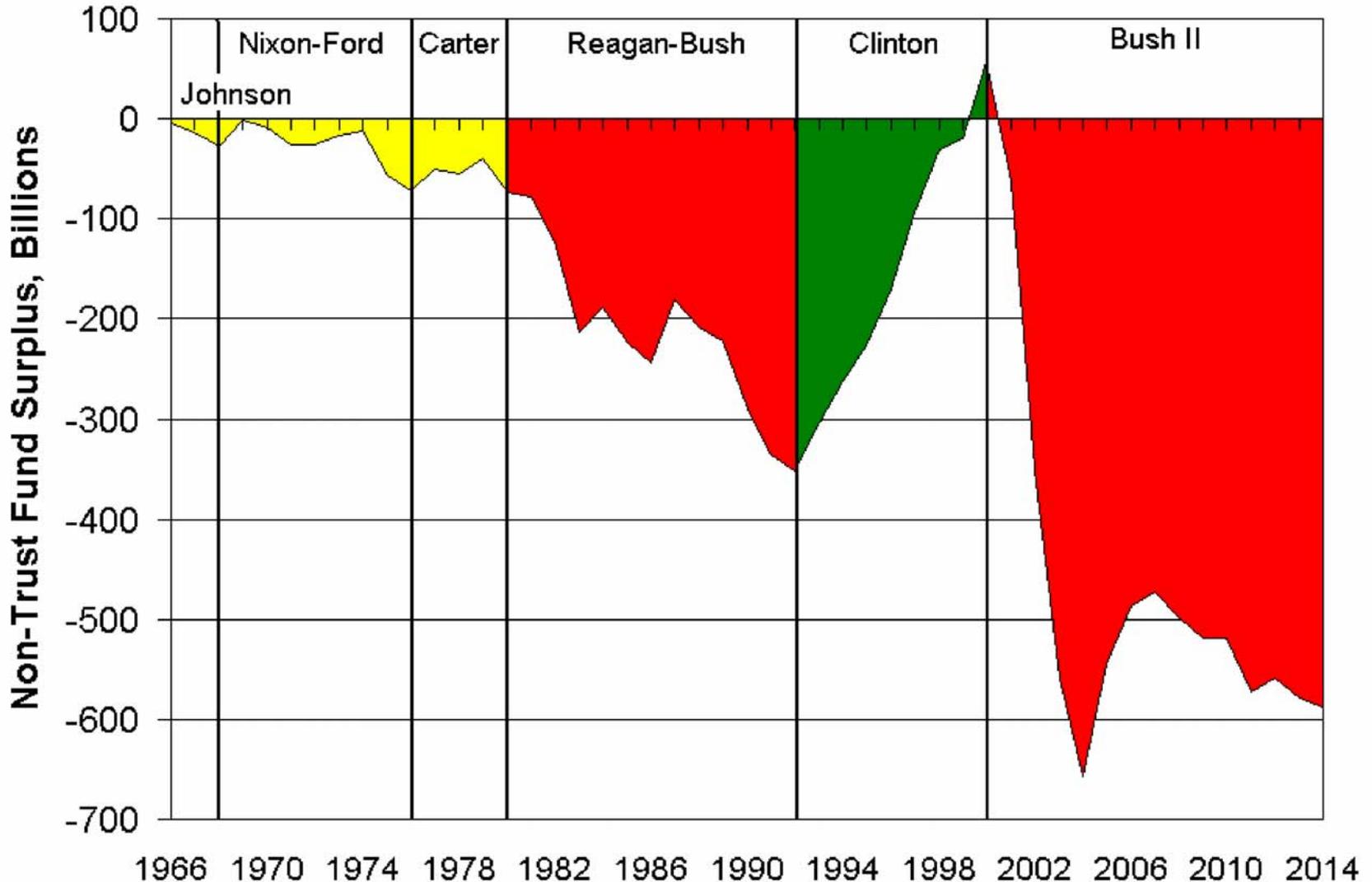


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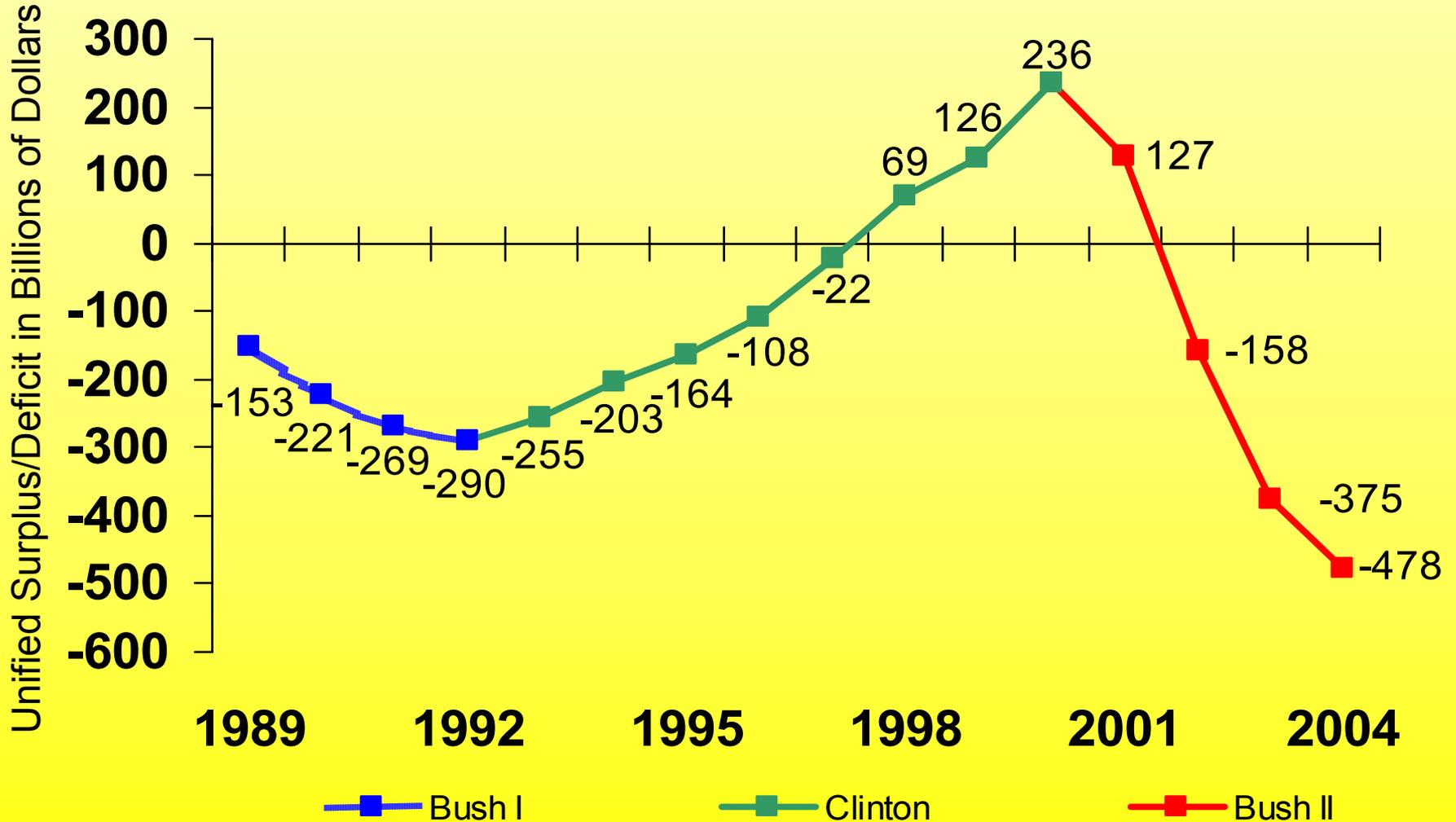
A Fiscal Opportunity Lost

Total Surplus or Deficit without Social Security or Medicare Trust Fund Surpluses



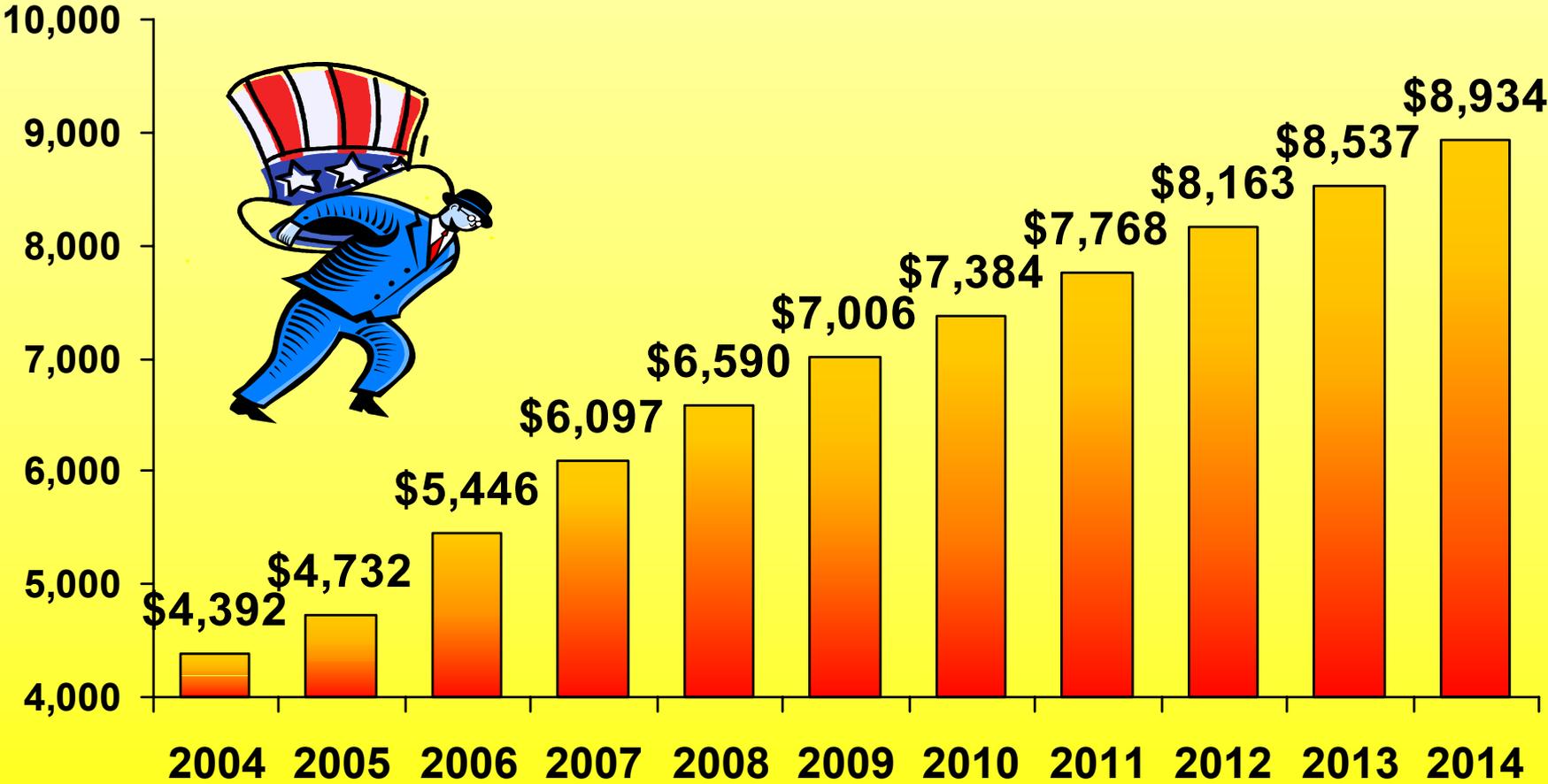
Backsliding Into the Deficit Ditch

From Deficit to Surplus to Deficit Again

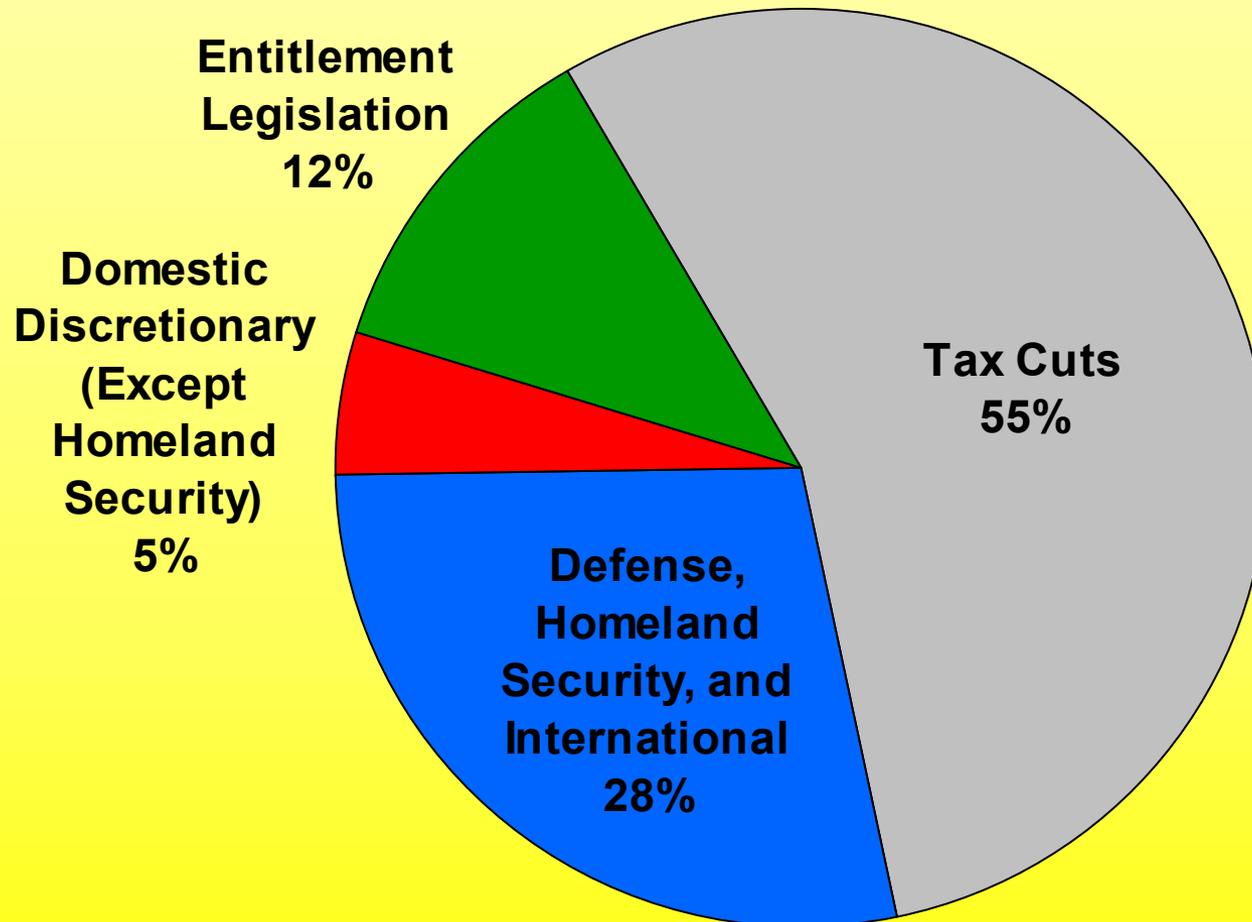


Bush Budget Raises the Debt Tax

Federal Gross Interest per Family of Four

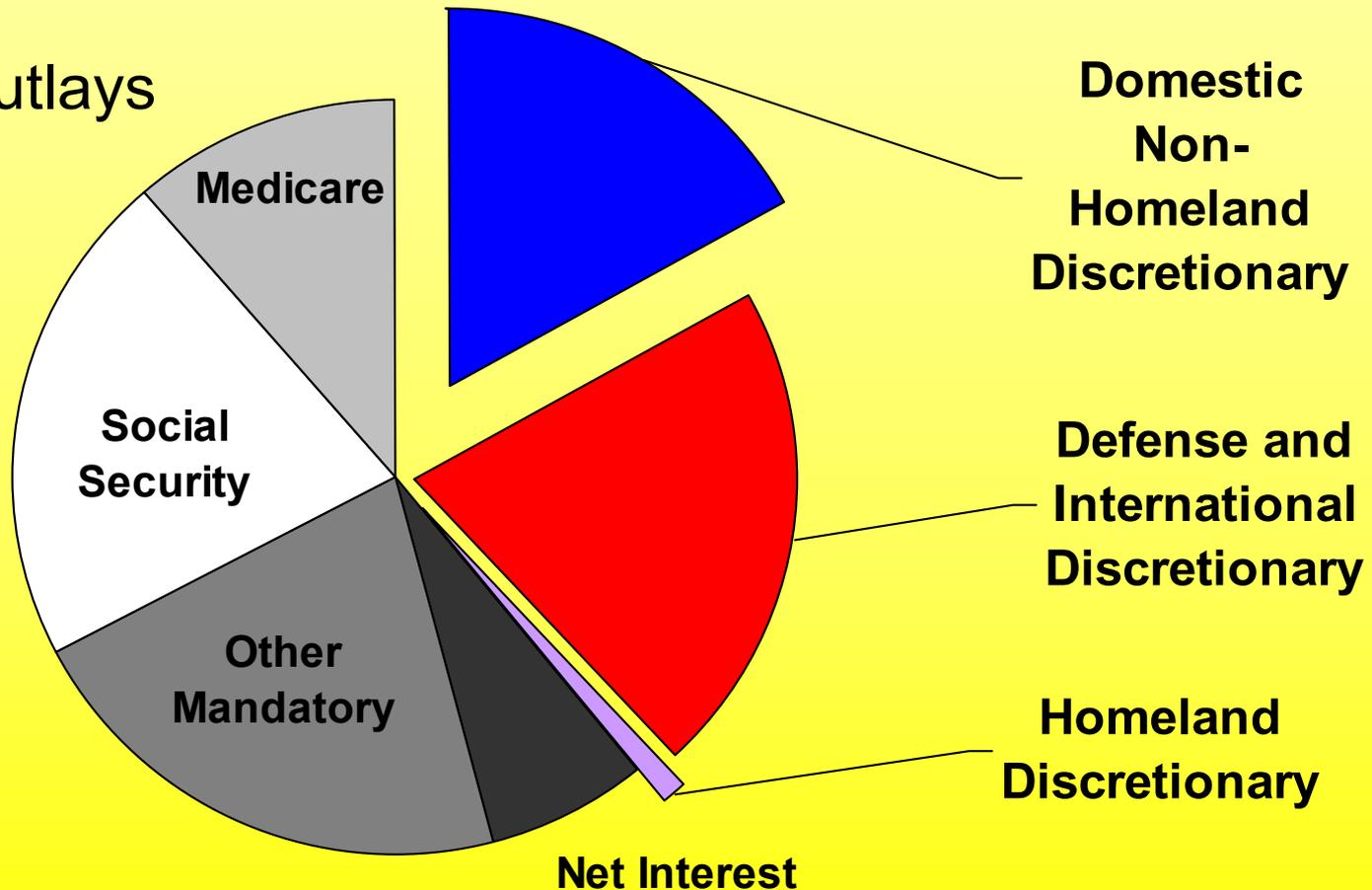


In 2003, Tax Cuts Accounted for the Majority of the Cost of Legislation Passed Since 2001

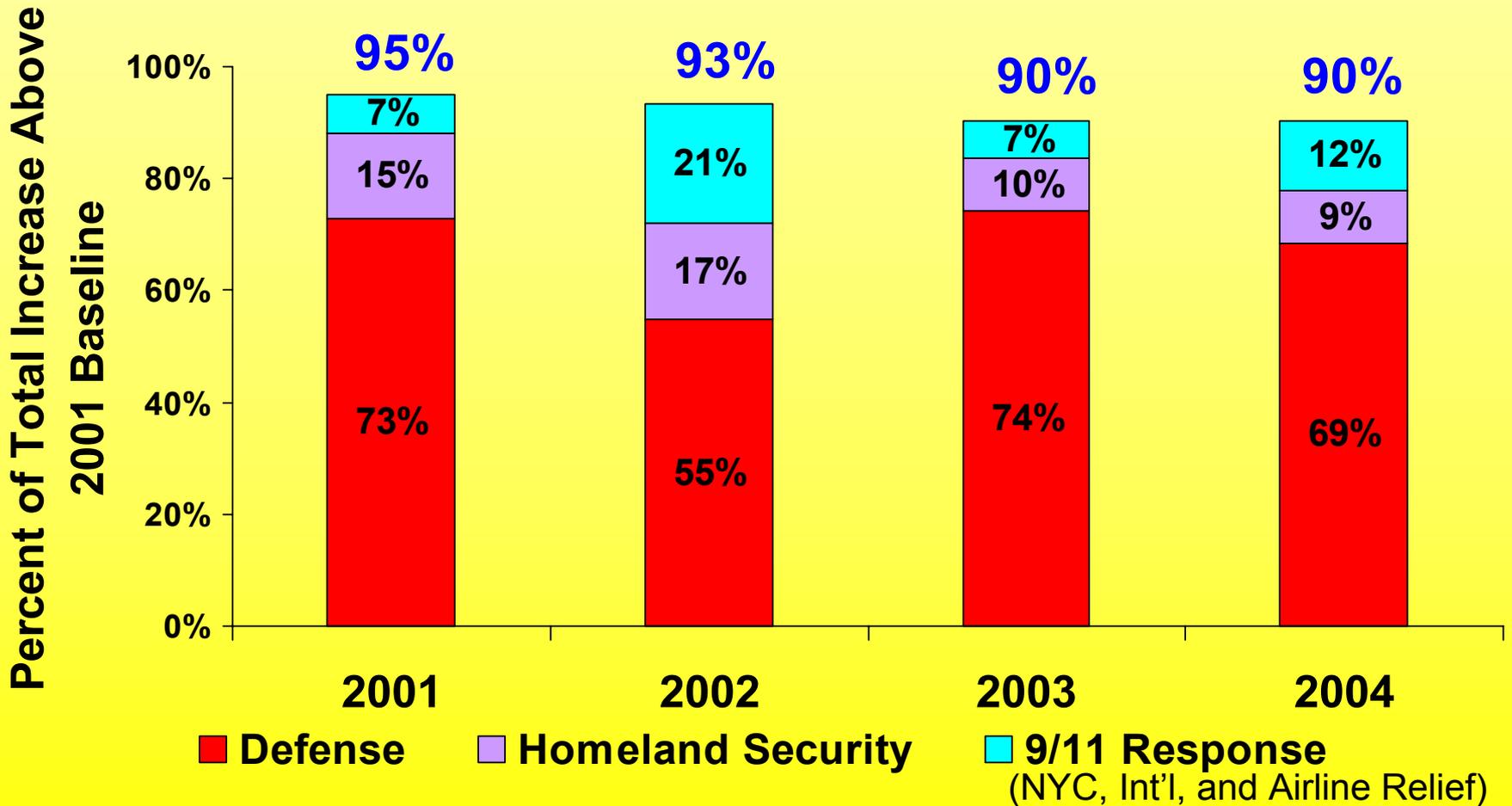


Domestic Non-Homeland Discretionary Spending Only One-Sixth of Budget

2004 Outlays



Defense, Homeland Security, and 9/11 Response Account for At Least 90 Percent of Funding Increases



Tax Cuts Larger than Social Security and Medicare Deficit Combined

